Report

of the

Examination of

Columbus Mutual Town Insurance Company

Beaver Dam, Wisconsin

As of December 31, 2000

TABLE OF CONTENTS

State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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November 9, 2001

Honorable Connie L. O'Connell
Commissioner of Insurance
State of Wisconsin
121 East Wilson Street
Madison, Wisconsin 53702

Commissioner:

In accordance with your instructions, an examination has been performed as of December 31, 2000, of the affairs and financial condition of

COLUMBUS MUTUAL TOWN INSURANCE COMPANY
Beaver Dam, Wisconsin

and the following report thereon is respectfully submitted:

I. INTRODUCTION

The last examination of this company was made in 1996 as of December 31, 1995. The current examination covered the intervening time period ending December 31, 2000, and included a review of such subsequent transactions deemed essential to complete this examination.

The Summary of Examination Results contains elaboration on all areas of the company's operations. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The company was originally organized as a town mutual insurance company on July 5, 1873, under the provisions of the then existing Wisconsin Statutes. The original name of the company was the Columbus, Columbia County Wisconsin Farmers Mutual Insurance Company. Subsequent amendments to the company's articles and bylaws changed the company's name to that presently used.

During the period under examination, there were two amendments to the articles of incorporation and no amendments to the bylaws.

The company amended their articles of incorporation in 1997 to delete Marquette and Sauk counties, and to add Washington and Waukesha counties to their territory. The company also amended their articles of incorporation in 1999 to change the date of the annual meeting from the second Tuesday in February to the second Tuesday in March. The amendments to articles and bylaws are further discussed in the section entitled “Corporate Records.”

A review of the certificate of authority revealed that the company is currently licensed to write business in the following counties:

> Columbia, Dane, Dodge, Fond du Lac, Green Lake, Jefferson, Washington, and Waukesha.

The company is currently licensed to write property, including windstorm and hail, and nonproperty insurance.

A review was made of the policy and application forms currently used by the company. The company issues an approved policy with or without endorsements for terms of three years with premiums payable on the advance premium basis. All policies issued by the company are assessable. The company does not charge any policy fees.

Business of the company is acquired through 13 agents, one of whom is a director of the company. Agents are presently compensated for their services as follows:

Type of Policy	Compensation
All policies	15%

Agents do not have authority to adjust losses. Losses are adjusted primarily by the Secretary/Treasurer, and also by other board members. Adjusters receive $25 for each loss adjusted plus $0.32 per mile for travel allowance.

Policyholders may participate in the management and control of the company by attending and voting at all annual or special meetings of the members. No member may vote by proxy. The annual meeting of the company for the election of directors and special meetings of the company are held in accordance with its articles of incorporation.

Board of Directors

The board of directors consists of seven members divided into three classes. One class is elected at each annual meeting for a term of three years. Vacancies on the board may be filled by the directors for the interim to the next annual meeting when a director shall be chosen for the unexpired term.

The current board of directors consists of the following policyholders of the company:

Name	Principal Occupation	Residence	Expiry
George Decker	Farmer	Fall River	2003
Francis Fox	Farmer	Columbus	2002
Ronald Karow	Farmer	Columbus	2002
Gordon Neuman	Farmer	Randolph	2003
Joseph Wedel*	Farmer	Beaver Dam	2001
Jerry Weissmann	Farmer	Columbus	2001
Dan Hemling	Farm Equipment Sales	Fall River	2001

* Directors who are also agents are identified with an asterisk.

Members of the board currently receive $50 for each meeting attended and $0.32 per mile for travel expenses.

Officers

Officers are elected by the board of directors from among its members and hold office for one year or until their successors are duly elected and qualified.

Officers serving at the present time are as follows:

Name	Office	2000 Salary
Ronald Karow	President	$850
Francis Fox	Vice-President	$0
Joseph Wedel	Secretary/Treasurer	$12,000

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. The board had not appointed any committees at the time of the examination. The lack of a claims adjusting committee is further discussed in the section entitled "Claims Adjusting."

Growth of Company

The growth of the company during the past five years as compiled from its filed annual statements was as follows:

Year	Net Premiums Earned	Net Losses and LAE Incurred	Policies In Force	Net Income	Admitted Assets	Policyholders' Surplus
1996	$130,931	$23,922	518	$98,881	$1,438,733	$1,270,372
1997	163,156	100,465	512	70,961	1,516,955	1,335,949
1998	189,524	152,903	499	38,851	1,527,875	1,387,387
1999	180,808	198,647	489	(32,746)	1,540,649	1,344,299
2000	188,246	26,754	468	152,302	1,712,813	1,531,972

The ratios of premiums written, gross and net, to surplus as regards policyholders during the past five years were as follows:

Year	Gross Premiums Written	Net Premiums Written	Ending Surplus	Writings Ratios Gross	Writings Ratios Net
1996	$257,033	$162,461	$1,270,372	20.2%	12.8%
1997	242,846	162,171	1,335,949	18.2	12.1
1998	256,099	167,746	1,387,387	18.5	12.1
1999	301,024	190,941	1,344,299	22.4	14.2
2000	320,979	199,262	1,531,972	21.0	13.0

For the same period, the company's operating ratios were as follows:

Year	Net Losses and LAE Incurred	Other Underwriting Expenses Incurred	Net Earned Premiums	Loss Ratio	Expense Ratio	Composite Ratio
1996	$23,922	$74,265	$130,931	18%	57%	75%
1997	100,465	75,869	163,156	62	47	108
1998	152,903	82,894	189,524	81	44	124
1999	198,647	88,110	180,808	110	49	159
2000	26,754	94,337	188,246	14	50	64

The company had unusually high losses in 1998 due to windstorms, and in 1999 due to several unrelated fires. One large fire, occurring in December 1999, was originally estimated at $180,000 gross loss. The company made an initial payment of $25,000 on this loss in December 1999. The annual statement figures for 1999 reflect this large unpaid loss on a gross basis, as well as the related excess of loss reinsurance recoverable. Subsequent to 12/31/99, it was discovered that a contractor on the property was at fault in causing the fire. The contractor's liability insurance paid for all losses and reimbursed the company the $25,000 already paid. The settlement of this loss without liability to the company caused the company to report negative gross losses in 2000. This in turn caused the company to report lower net incurred losses and a higher net income in 2000 than would otherwise have been reported, reversing the effect of this loss on the 1999 financial statements. Direct losses paid were $274,993 in 1998; $272,193 in 1999; and $59,536 in 2000.

II. REINSURANCE

The examiners' review of the company's reinsurance portfolio revealed there is currently one ceding treaty. The treaty contained a proper insolvency clause and complied with s. Ins 13.09 (3), Wis. Adm. Code, concerning maximum wind loss. Company retentions of risk complied with s. Ins 13.06, Wis. Adm. Code.

Reinsurer:	Wisconsin Reinsurance Corporation
Effective date:	January 1, 2000, continuous
Termination provisions:	Either party may terminate this contract as of any subsequent January 1 by giving to the other party at least 90 days advance notice in writing.

The coverages provided under this treaty are summarized as follows:

1.	Type of contract:	Class A, Excess of Loss
	Lines reinsured:	Nonproperty
	Company's retention:	$750 per occurrence. Annual aggregate not to exceed the lesser of $200,000 or 20% of prior year's surplus.
	Coverage:	100% of each and every loss, LAE included. Single limit of $1,000,000 per occurrence.
	Reinsurance premium:	75% of liability premiums
	Ceding commission:	None
2.	Type of contract:	Class B, First Surplus
	Lines reinsured:	Property
	Company's retention:	$250,000; company may cede up to 50% of risks if retention is less than $250,000
	Coverage:	Pro rata share of each and every loss including LAE. When the company's net retention is $250,000 or more, the company may cede on a pro rata basis up to $800,000. When net retention is less than $250,000, the company may cede up to 50% of such risk.
	Reinsurance premium:	The pro rata portion of premiums corresponding to the amount of each risk ceded
	Ceding commission:	15% sliding scale Minimum = 15.0%; Maximum = 35.0%
3.	Type of contract:	Class C, Excess of Loss
	Lines reinsured:	Property
	Company's retention:	Annual aggregate deductible of $25,000 and $25,000 per loss

	Coverage:	100% of any loss in excess of the retention up to $75,000, excluding LAE
	Reinsurance premium:	Net premiums written X [Sum of the immediate prior four years' losses incurred by the reinsurer divided by the total net premium written written for the corresponding four-year period, multiplied by a factor of 100/80ths] Minimum rate: 7% of net premiums written Maximum rate: 19% of net premiums written The rate for the current annual period is 7%.
	Ceding commission:	None
4.	Type of contract:	Class C, Second Excess of Loss
	Lines reinsured:	Property
	Company's retention:	$100,000
	Coverage:	100% of each occurrence, excluding LAE, in excess of $100,000 up to a maximum of $150,000
	Reinsurance premium:	6% of net premium written
	Ceding commission:	None
5.	Type of contract:	Class D/E, Stop Loss
	Lines reinsured:	All business written
	Company's retention:	Aggregate losses, excluding LAE, up to 80% of net premiums written
	Coverage:	100% of any loss, excluding LAE, if the company's aggregate losses exceed 80% of net premiums written
	Reinsurance premium:	Net premiums written X [Sum of the prior eight years' losses incurred by the reinsurer, divided by the total net premiums written for the same period multiplied by a factor of 100/80ths] Minimum rate: 6% of net premiums written Maximum rate: 25% of net premiums written The rate for the current annual period is 7.68%.
	Ceding commission:	None

III. FINANCIAL DATA

The following financial statements were filed with the Commissioner of Insurance in the company's annual statement at December 31, 2000. Adjustments made as a result of the examination are noted at the end of this section of this report in the area captioned "Reconciliation of Policyholders' Surplus."

Columbus Mutual Town Insurance Company
Statement of Assets and Liabilities
As of December 31, 2000

Assets	Ledger	Nonledger	Not Admitted	Net Admitted
Cash Deposited in Checking Account	$ 61,026	$	$	$ 61,026
Cash Deposited at Interest	559,592			559,592
Bonds (at Amortized Cost)	450,000			450,000
Stocks or Mutual Fund Investments (at Market)	594,511			594,511
Premiums and Agents' Balances In Course of Collection	3,600			3,600
Premiums and Agents' Balances and Installments Booked But Deferred and Not Yet Due	24,600			24,600
Investment Income Due or Accrued		17,530		17,530
Electronic Data Processing Equipment – Excluding Software (Cost Less Accumulated Depreciation)	1,954			1,954
Furniture and Fixtures	667		667	
TOTALS	$1,695,950	$17,530	$667	$1,712,813

Liabilities and Surplus

Net Unpaid Losses	$ 18,464
Unpaid Loss Adjustment Expenses	550
Commissions Payable	3,700
Fire Department Dues Payable	198
Net Unearned Premiums	127,000
Reinsurance Payable	27,474
Amounts Withheld for the Account of Others	277
Payroll Taxes Payable	978
Other Liabilities: Expense Related Accounts Payable	2,200
TOTAL LIABILITIES	180,841
Policyholders' Surplus	1,531,972
TOTAL	$1,712,813

Columbus Mutual Town Insurance Company
Statement of Operations
For the Year 2000

Net Premiums and Assessments Earned	$ 188,246
Deduct:	
Net Losses Incurred	15,243
Net Loss Adjustment Expenses Incurred	11,511
Other Underwriting Expenses Incurred	94,337
Total Losses and Expenses Incurred	121,091
Net Underwriting Gain (Loss)	67,155
Net Investment Income:	
Net Investment Income Earned	85,147
Net Realized Capital Gains	0
Total Investment Income	85,147
Other Income:	
Miscellaneous Income	0
Net Investment and Other Income	85,147
Net Income (Loss) Before Policyholder Dividends and Before Federal Income Taxes	152,302
Policyholder Refunds or Dividends	0
Net Income (Loss) Before Federal Income Taxes	152,302
Federal Income Taxes Incurred	0
Net Income (Loss)	$152,302

Columbus Mutual Town Insurance Company
Reconciliation and Analysis of Surplus as Regards Policyholders
For the Five-Year Period Ending December 31, 2000

The following schedule is a reconciliation of surplus as regards policyholders during the period under examination as reported by the company in its filed annual statements:

Surplus as regards policyholders, December 31, 1995		$1,161,212
1996		
Net income (loss)	$98,881	
Net unrealized capital gains or losses	10,053	
Change in nonadmitted assets	226	
Change in surplus as regards policyholders for the year		109,160
Surplus as regards policyholders, December 31, 1996		$1,270,372
1997		
Net income (loss)	$70,961	
Net unrealized capital gains or losses	(3,382)	
Change in nonadmitted assets	(2,002)	
Change in surplus as regards policyholders for the year		65,577
Surplus as regards policyholders, December 31, 1997		$1,335,949
1998		
Net income (loss)	$38,851	
Net unrealized capital gains or losses	12,142	
Change in nonadmitted assets	445	
Change in surplus as regards policyholders for the year		51,438
Surplus as regards policyholders, December 31, 1998		$1,387,387
1999		
Net income (loss)	$(32,746)	
Net unrealized capital gains or losses	(10,787)	
Change in nonadmitted assets	445	
Change in surplus as regards policyholders for the year		(43,088)
Surplus as regards policyholders, December 31, 1999		$1,344,299
2000		
Net income	$ 152,302	
Net unrealized capital gains or losses	34,926	
Change in nonadmitted assets	445	
Change in surplus as regards policyholders for the year		187,673

Surplus as regards policyholders, December 31, 2000	$1,531,972

Reconciliation of Policyholders' Surplus

There were no adjustments to the company's reported Policyholders' Surplus as a result of this examination.

IV. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

Comments and recommendations contained in the last examination report and the action taken on them by the company are as follows:

1. Corporate Records—It is recommended that the company comply with s. 612.04 (2), Wis. Stat., which states that no change in the articles, bylaws, or business plan is effective until approved by the commissioner.

   Action—Partial compliance. The company never filed its amended articles and bylaws as of December 31, 1995 for the Commissioner's approval. The company had one amendment in 1997 that was filed with and approved by the Commissioner. The company also had another amendment to the articles and bylaws, in 1999, which was not filed for the Commissioner's approval.

2. Underwriting—It is recommended that the company establish a formal inspection procedure for new and renewal business, whereby a sampling of new applications and of renewal business is inspected by committee members independent of the risk under consideration.

   Action—Noncompliance. Although the company performs some informal inspections, the company has no formal inspection procedures, and inspections are not documented.

3. Accounts and Records—It is recommended that the company establish a procedure to ensure that all checks are properly endorsed when received in accordance s. Ins. 13.05 (4), Wis. Adm. Code.

   Action—Compliance. Company has purchased a second endorsement stamp for use at the secretary/treasurer's home.

4. Accounts and Records—It is recommended that the company properly report rental expense as such and not include it as part of the company's office expense.

   Action—Compliance. The examination verified that rental expense is being properly reported as such, and is not included in the company's office expense.

5. Net Unpaid Losses—It is recommended that documentation be maintained on all claims, including claims closed without payment, in accordance with s. Ins. 13.05 (4), Wis. Adm. Code.

   Action—Compliance. The company is maintaining documentation for all claims, including claims closed without payment.

Current Examination Results

Corporate Records

The minutes of the annual meetings of policyholders and meetings of the board of directors and any committees thereof, were reviewed for the period under examination and also for the subsequent current period.

The 1997 amendment to the company's articles and bylaws was properly filed with and approved by the Commissioner. However, the 1999 amendment was not filed with the Commissioner for approval. It is again recommended that the company comply with s. 612.04 (2), Wis. Stat., which states that no change in the articles, bylaws, or business plan is effective until approved by the Commissioner.

The company's articles provide that the articles and bylaws may only be amended by an affirmative vote of at least two-thirds of the members present at the annual meeting. The 1997 amendment was approved by the necessary two-thirds of policyholders present at the annual meeting on February 13, 1997. However, the minutes of the February 9, 1999 meeting do not reflect the number of members for and against the amendment; it is therefore not clear that the two-thirds requirement was met. It is recommended that the company amend its articles of incorporation only in a manner consistent with the provisions of its articles and bylaws.

Biographical data relating to company officers and directors have not been reported in accordance with the provisions of s. Ins 6.52, Wis. Adm. Code. A biographical sketch has not been filed for Dan Hemling, who was elected to the board in February 1998. It is recommended that the company report biographical data to the Commissioner immediately after the selection of a new director or officer, in accordance with the provisions of s. 612.15 (1), Wis. Stats.

The company has executed formal written agreements with its agents. The contracts include language indicating the agent will represent the company's interests "in good faith."

Conflict of Interest

In accordance with a directive of the Commissioner of Insurance, each company is required to establish a procedure for the disclosure to its board of directors of any material interest or affiliation on the part of its officers, directors, or key employes which conflicts or is likely to conflict with the official duties of such person. A part of this procedure is the annual completion of a conflict of interest questionnaire by the appropriate persons. The company has adopted such a procedure for disclosing potential conflicts of interest. Conflict of interest questionnaires were reviewed for the period under examination with no apparent conflicts being noted.

During the review of the minutes of the board meetings, it was noted that the minutes did not reflect abstentions by the officers when their salaries were voted upon. It is recommended that directors abstain on issues where a conflict of interest exists per s. 612.18, Wis. Stat. directive. It is also recommended that the minutes reflect the director(s) that abstain when a conflict of interest exists.

Fidelity Bond and Other Insurance

The company is afforded coverage under the terms of the following bonds or contracts and has complied with s. Ins 13.05 (6), Wis. Adm. Code, which sets forth the minimum requirements for fidelity bond coverage:

Type of Coverage	Coverage Limits
Fidelity Bond	$ 85,000
Directors and Officers	1,000,000
Agents Bond (covers 3 largest agents)	15,000

Underwriting

The company has a written underwriting guide. The guide covers all the lines of business that the company is presently writing.

The company does not have a formal inspection procedure for both new and renewal business. It is again recommended that the company establish a formal inspection procedure for new and renewal business, whereby a sampling of new applications and of renewal business is inspected by committee members independent of the risk under consideration.

Claims Adjusting

The company does not have an adjusting committee consisting of at least three directors as required by s. 612.13 (4), Wis. Stat. Although the board members discussed losses at each board meeting, no formal loss adjusting committee has been appointed as required by s. 612.13 (4), Wis. Stat. It is recommended that the company comply with the provisions of s. 612.13 (4), Wis. Stat., by annually appointing from their own number, an adjusting committee of at least three persons to adjust or supervise the adjustment of losses.

Accounts and Records

The examiners' review of the company's records indicated that the company is in compliance with s. Ins 13.05, Wis. Adm. Code, which sets forth the minimum standards for the handling of cash and recording of cash transactions by town mutual insurance companies. The examiners noted the following:

1. A proper policy register is maintained
2. A proper cash receipts journal is maintained
3. A proper cash disbursements journal is maintained
4. A proper general journal is maintained
5. A proper general ledger is maintained

An extensive review was made of income and disbursement items. Cash receipts were traced from source records and the proper recording and eventual deposit thereof ascertained. Negotiated checks issued during the period under examination were reviewed, test checked for proper endorsement, and traced to cash records. The verification of assets and determination of liabilities were made as of December 31, 2000.

While reviewing disbursement items, the examiners noted that blank checks are kept in an unlocked file cabinet, with unlimited access. It is recommended that the company keep its blank checks in a secure location, with access limited to those persons authorized to issue checks.

The company is audited annually by an outside public accounting firm.

EDP Environment

Company personnel were interviewed with respect to the company's Electronic Data Processing environment. Access to the computer is limited to people authorized to use the computer.

Company personnel back up the computers daily and the backed-up data is kept off-site. The backups are stored at the home of the office assistant. In addition, the company sends backups to its reinsurer.

A manual which describes how to use the company's software and outlines the steps to complete specific tasks assists in the continuity of operations for seldom-used applications, training, or when staff turnover occurs. The company has manuals documenting the use of its software.

Disaster Recovery Plan

A disaster recovery plan identifies steps to be performed in case the company loses a key employe, is not able to access its computer, information on its computer was lost, or the office building was destroyed, to name a few contingencies. The company has not developed a disaster recovery plan. It is recommended that the company develop a disaster recovery plan, including a plan for the replacement of key personnel.

Invested Assets

Section 610.23, Wis. Stat., requires insurers to hold all investments and deposits of its funds in its own name except that:

> (1) Securities kept under a custodial agreement or trust arrangement with a bank or banking and trust company may be issued in the name of a nominee of the bank or banking and trust company; and
>
> (2) Any insurer may acquire and hold securities in bearer form.

For securities not held under a custodial agreement or trust arrangement with a bank or banking and trust company, s. Ins 13.05 (4), Wis. Adm. Code, requires that:

> Non-negotiable evidences of company investments such as registered bonds, certificates of deposits, notes, etc., shall be maintained in a safe or vault with adequate safety controls or in a safety deposit box in a bank. Negotiable evidences of company investments shall be maintained in a safety deposit box in a bank. Access to a company safety deposit box containing negotiable securities shall require the presence and signature of at least 2 officers, directors or employes of the company.

The company is not in compliance with these requirements. The company maintains a safety deposit box; however, the only investments found in the safety deposit box were the company's Wisconsin Reinsurance Corporation and NAMIC stock certificates. The remainder of the company's investments are held by the company's investment brokerage firm. This arrangement is not in compliance with s. 610.23, Wis. Stat.

It is recommended that the company comply with s. 610.23, Wis. Stat., and s. Ins 13.05, Wis. Adm. Code, as regards custody and control of its invested assets.

Transition into the New Investment Rule

On January 1, 1996, the investment rule for town mutuals was amended to allow town mutuals to invest in common stocks, common stock mutual funds, and other higher risk investments (referred to as "Type 2") provided that the town mutual has a sufficient amount of lower risk investments (referred to as "Type 1"). A town mutual may invest in Type 2 securities only if it already has sufficient Type 1 investments. Type 1 investments must equal or exceed the greater of items 1, 2, or 3.

1.	Liabilities plus $300,000	$480,841
2.	Liabilities plus 33% of gross premiums written	286,764
3.	Liabilities plus 50% of net premiums written	280,472
4.	Amount required (greater of 1, 2, or 3)	480,841
5.	Amount of Type 1 investments as of 12/31/2000	900,166
6.	Excess or (deficiency)	$419,325

The company has sufficient Type 1 investments.

The new investment rule prescribes that a town mutual shall divest any investment which does not comply with the rule within three years of its noncompliance, unless the Commissioner permits a longer period or requires a shorter period. Currently the company has three investments, with a statement value of $284,250, which are not in compliance with the new investment rule. The company's plan to bring these investments into compliance was approved by the Commissioner. These investments each exceed the limitation of 3% of net admitted assets pursuant to s. Ins 6.20 (6)(f)(1), Wis. Adm. Code. The company has been given approval to hold these items for an additional two years; this extension ends on on November 17, 2002.

ASSETS

Cash and Invested Cash **$**620,619

The above asset is comprised of the following types of cash items:

Cash in company's office	$ 0
Cash deposited in banks-checking accounts	61,027
Cash deposited in banks at interest	559,592
Total	$620,619

Cash deposited in banks subject to the company's check and withdrawal consists of one account maintained in one bank. Verification of checking account balances was made by obtaining confirmations directly from the depository and reconciling the amounts shown thereon to company records.

Cash deposited in banks represents the aggregate of eight deposits in seven depositories. Deposits were verified by direct correspondence with the respective depositories and by an actual count and inspection of certificates and/or passbooks. Interest received during the year 2000 totaled $27,883 and was verified to company cash records. Rates of interest earned on cash deposits ranged from 4.5% to 7.2%. Accrued interest on cash deposits totaled $10,015 at year-end.

Book Value of Bonds **$**450,000

The above asset consists of the aggregate book value of bonds held by the company as of December 31, 2000. Bonds owned by the company are held by the company's investment brokerage firm.

Bonds were not physically inspected by the examiners. Bond purchases and sales for the period under examination were checked to brokers' invoices and advices. The company's investment in bonds was in conformance with Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments made by town mutual insurers, except as regards custodian.

Interest received during 2000 on bonds amounted to $30,200 and was traced to cash receipts records. Accrued interest of $7,515 at December 31, 2000, was checked and allowed as a nonledger asset.

Stocks and Mutual Fund Investments **$**594,511

The above asset consists of the aggregate market value of stocks and mutual funds held by the company as of December 31, 2000. Stocks owned by the company are held by the company's investment brokerage firm. The company's Wisconsin Reinsurance Corporation and NAMIC stock certificates are kept in the company's safety deposit box..

Stock certificates were physically examined by the examiners where possible. Stock and mutual fund purchases and sales for the period under examination were checked to brokers' invoices and advices. The company's investment in stocks and mutual funds was not in conformance with Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments made by town mutual insurers. The company holds 29.7% of its assets in common and preferred stocks, above the 25% limitation pursuant to s. Ins 6.20 (6)(d)(3), Wis. Adm. Code. The company was advised to request permission from the Commissioner to hold a higher percentage of its assets in common and preferred stocks.

Dividends received during 2000 on stocks and mutual funds amounted to $28,942 and were traced to cash receipts records. The company had no accrued dividends at December 31, 2000.

Agents' Balances or Uncollected Premiums **$**3,600

The above ledger asset represents the amounts due from agents or policyholders which are not in excess of 90 days past due at year-end. A review of individual agent's accounts verified the accuracy of this asset.

Premiums Booked but Deferred and Not Yet Due **$**24,600

The above ledger asset represents future installments receivable for currently effective policies. A review and recalculation of supporting records verified this asset.

Investment Income Due and Accrued **$**17,530

Interest due and accrued on the various assets of the company at December 31, 2000, consists of the following:

Cash at Interest	$10,015
Bonds	$7,515

EDP Equipment **$**1,954

This asset consists of computer equipment. The amount reported is net of accumulated depreciation and excludes software. The examiners verified this asset by physical inspection and by reviewing the method of depreciation.

Equipment, Furniture, and Supplies **$**667

This asset consists of $667 of office equipment owned by the company at December 31, 2000. In accordance with annual statement requirements, this amount has been deducted as an asset not admitted.

LIABILITIES AND SURPLUS

Net Unpaid Losses **$21,953**

This liability represents losses incurred on or prior to December 31, 2000, and remaining unpaid as of that date. The examiners' development of unpaid losses is compared with the amount estimated by the company in the following schedule. Differences are reflected in the section of this report captioned "Reconciliation of Policyholders' Surplus."

	Company Estimate	Examiners' Development	Difference
Incurred But Unpaid Losses	$36,954	$39,787	$(2,833)
Less:			
Reinsurance Recoverable on Unpaid Losses	18,490	17,834	(656)
Net Unpaid Losses	$18,464	$21,953	$(3,489)

The examiners developed this liability by totaling actual loss payments made through the development period on those losses incurred on or prior to December 31, 2000. To the actual paid loss figures was added an estimated amount for those 2000 and prior losses remaining unpaid at the examination date, if any. The above difference of $3,489 was not considered material for purposes of this examination, and therefore no adjustment was made. The discrepancy arose primarily from the failure to include the company's 1997 unpaid claims in the list of unpaid claims at year-end 2000. This omission was noted during review of the company's claim register and comfirmed via discussion with company personnel to verify that these claims were in fact still open. It is recommended that the company include all open claims with a reserve balance when calculating the liability for net unpaid losses.

The examiners' review of claim files included open claims, paid claims, claims closed without payment, and all claims which were denied during the examination period. The review indicated that claims are investigated and evaluated properly and that payments are made promptly and in accordance with policy provisions upon the submission of a proper proof of loss. In addition, the review of claims handling procedures and files revealed the following:

1. A proper loss register is maintained.
2. Claim files did not contain sufficient investigatory data and documentation to verify settlement payments or reserve estimates.
3. Proofs of loss were properly signed.

The company does not maintain individual claim files, separated and individually labeled with the claim number. Although documentation could be located for most claims, a large amount of searching for paperwork was usually involved, especially for older claims. The creation of individual claim files, each labeled with the claim number and containing all documentation related to the claim, would expedite the process of locating claim information. It is recommended that the company create claim files for each reported claim, individually labeled with the claim number and containing all documentation related to the claim.

The examination also noted that the company allows claims to remain open for a number of years without settlement, the company waiting for information from the claimant or for the insured to repair covered damages. This practice may be interpreted to be an unfair settlement policy by failure to initiate and conclude claim investigations in a reasonable period of time. It also increases the company's exposure to additional loss sustained on damaged and unrepaired property. It is recommended that the company adopt procedures for timely settlement of claims, in compliance with s. Ins 6.11 (3) (a) 2, Wis. Adm. Code.

Unpaid Loss Adjustment Expenses **$**550

This liability represents the company's estimate of amounts necessary to settle losses which were incurred prior to December 31, 2000, but which remained unpaid as of year-end. The methodology used by the company in establishing this liability is to allocate $25 per claim for loss adjustment expenses.

The examiners' analysis of expenses incurred in the current year related to the settlement of prior year losses, as well as estimates of amounts necessary to settle any prior losses remaining unpaid at the examination date, determined this liability to be adequately stated.

Unearned Premiums **$**127,000

This liability represents the reserve established for unearned premiums in compliance with s. Ins 13.08 (3), Wis. Adm. Code. This reserve was established using a daily pro rata methodology.

Reinsurance Payable **$**27,474

This liability consists of amounts due to the company's reinsurer at December 31, 2000, relating to transactions which occurred on or prior to that date.

December 2000 Premium	$9,204
Class A, Adjusted Premium (underpayment)	6,095
Class C-1, Adjusted Premium (underpayment)	2,300
Class C-2, Adjusted Premium (underpayment)	2,000
Class D/E, Adjusted Premium (underpayment)	2,600
Net Deferred Premium Payable	5,275
Total Payable	$27,474

Subsequent cash disbursements and reinsurance accountings verified the amount of this liability.

Fire Department Dues Payable **$**198

This liability represents the fire department dues payable at December 31, 2000.

The examiners reviewed the company's fire department dues calculation and found this liability to be correctly calculated. The actual amount paid was verified to the cash disbursement records.

Commissions Payable **$**3,700

This liability represents the commissions payable on deferred premiums. It is calculated by multiplying the deferred premium balance of $24,600 by the 15% commission rate.

The examiners recalculated the amount and found this liability to be correctly calculated. The liability is rounded up to the next hundred on the annual statement.

Amounts Withheld for the Account of Others **$**277

This liability represents employe payroll deductions in the possession of the company at December 31, 2000. Supporting records and subsequent cash disbursements verified this item.

Payroll Taxes Payable **$**978

This liability represents the company's portion of payroll taxes incurred prior to December 31, 2000, which had not yet been paid. Supporting records and subsequent cash disbursements verified this item.

Accounts Payable **$**2,200

This liability represents varoius other payables received prior to December 31, 2000, which had not yet been paid. Supporting records and subsequent cash disbursements verified these items.

Premiums Paid in Advance **$**0

This liability represents premiums received by the company in advance of the policy effective date. The company reported no balance for this liability as of December 31, 2000.

As the company bills one month in advance of the renewal date, the examiners tested the liability by reviewing the December 2000 premium billings and comparing this listing to the December cash receipts journal. The examiners noted several instances where premium was received in December 2000 for a policy that did not become effective until January 2001. It is recommended that the company properly calculate and report a liability for premiums received in advance.

V. CONCLUSION

Profitable operating results were achieved in 2000, after two years of unusually large losses. The company has reported a profit in four of the last five years, the exception being in 1999, when the company both sustained and paid an unusually high amount of losses. The examination also noted that the board of directors takes an active role in reviewing operating results and the actions of management.

The examination determined that the company had complied with three of the five prior examination results. Two of the recommendations are repeated on the following page, in addition to the eleven recommendations as a result of the current examination. There were no adjustments or reclassifications as a result of the examiners' review of the balance sheet accounts.

VI. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 16 - Corporate Records—It is again recommended that the company comply with s. 612.04 (2), Wis. Stat., which states that no change in the articles, bylaws, or business plan is effective until approved by the Commissioner.

2. Page 16 - Corporate Records—It is recommended that the company amend its articles of incorporation only in a manner consistent with the provisions of its articles and bylaws.

3. Page 16 - Corporate Records—It is recommended that the company report biographical data to the Commissioner immediately after the selection of a new director or officer, in accordance with the provisions of s. 612.15 (1), Wis. Stats.

4. Page 17 - Conflict of Interest—It is recommended that directors abstain on issues where a conflict of interest exists per s. 612.18, Wis. Stat. directive. It is also recommended that the minutes reflect the director(s) that abstain when a conflict of interest exists.

5. Page 17 - Underwriting—It is again recommended that the company establish a formal inspection procedure for new and renewal business, whereby a sampling of new applications and of renewal business is inspected by committee members independent of the risk under consideration.

6. Page 17 - Claims Adjusting—It is recommended that the company comply with the provisions of s. 612.13 (4), Wis. Stat., by annually appointing from their own number, an adjusting committee of at least three persons to adjust or supervise the adjustment of losses.

7. Page 18 - Accounts and Records—It is recommended that the company keep its blank checks in a secure location, with access limited to those persons authorized to issue checks.

8. Page 19 - Disaster Recovery Plan—It is recommended that the company develop a disaster recovery plan, including a plan for the replacement of key personnel.

9. Page 19 - Invested Assets—It is recommended that the company comply with s. 610.23, Wis. Stat., and s. Ins 13.05, Wis. Adm. Code, as regards custody and control of its invested assets.

10. Page 24 - Net Unpaid Losses—It is recommended that the company include all open claims with a reserve balance when calculating the liability for net unpaid losses.

11. Page 25 - Net Unpaid Losses—It is recommended that the company create claim files for each reported claim, individually labeled with the claim number and containing all documentation related to the claim. [Exact wording from report.].

12. Page 25 - Net Unpaid Losses—It is recommended that the company adopt procedures for timely settlement of claims, in compliance with s. Ins 6.11 (3) (a) 2, Wis. Adm. Code.

13. Page 27 - Premiums Paid in Advance—It is recommended that the company properly calculate and report a liability for premiums received in advance.

14. Page 22 - Stocks and Mutual Fund Investments—Comment - The company was advised to request permission from the Commissioner to hold a higher percentage of its assets in common and preferred stocks.

VII. ACKNOWLEDGMENT

The courteous cooperation extended to the examiners by the company's personnel is hereby acknowledged.

In addition to the undersigned, John Litweiler of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Respectfully submitted,

Sarah M. Salmon
Examiner-in-Charge